Canopy:

COMMITTED TO INVESTING IN OUR REGION

Creating a model to drive collaborative place-based investing

- Place-based investing
- Philanthropy as catalytic capital
- Cross-sector collaboration
- Communities as unique investment ecosystems
- Bridging the gap between capital markets and communities

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“We the people of Montana grateful to God for the quiet beauty of our state, the grandeur of our mountains, the vastness of our rolling plains, and desiring to improve the quality of life, equality of opportunity and to secure the blessings of liberty for this and future generations do ordain and establish this constitution.”

---Preamble of the Constitution of Montana

FOREWORD

In ratifying their Constitution in 1972, Montanans affirmed what we know to be true: people care deeply about and are inspired by their place. Here in the Pacific Northwest - Alaska, Idaho, Montana, Oregon, Washington and Wyoming – our sense of place results from an incredibly rich, diverse and unique set of characteristics rooted in our cultures, experiences and learning over time as related to the environment. Regardless of whether in a rural or urban setting, sense of place is a layered concept that, once peeled to its core, reveals that local matters. We see this reflected in many ways including Farm to Table, the Slow movement and networks like Business Alliance for Local Living Economies.

As the Preamble attests, our aspirations for the local places that inspire us are modest: freedom, equality of opportunity and a good quality of life. As modest as those aspirations are, they have become increasingly elusive for too many. This institutional disconnect helps explain why only 1% of venture capital flows to black or Hispanic entrepreneurs and only 3% of venture capital flows to women entrepreneurs, who comprise 36% of our nation’s small business owners. Today, as a key strategy to building vibrant, equitable and inclusive communities, many investors like foundations, corporations, government and individuals are seeking to directly allocate investment capital to the places where they work and live. Call it place-based investing.

Were it only that simple. The health of a given “local economy” is frequently tied to that of a regional economic ecosystem. At times, navigating the most treacherous sections of either the Rogue or Snake Rivers is easier than getting different investor types to work together. There is also a demand - supply equation.

For those committed to place-based investing, reestablishing the connection between financial capital and local economies is job number one. Fortunately, here in the Pacific Northwest, our cultures are characterized by the values inherent in innovation, entrepreneurship, generosity and stewardship. Those values led a small group of place-based foundations to experiment together to create Canopy, a mission-driven company focused on evolving a replicable model of place-based investing. Appropriately, Canopy frames its journey by observing the world is awash in capital but, due to its primary values of scale and security, that capital rarely makes it to where it can have its greatest impact. It’s the kind of compelling framing that we expect here in the Pacific Northwest and I’m proud that Canopy embodies our cultural commitment to doing well and doing good at the same time.

Farmer, author and scholar Wendell Berry once observed, “if you don’t know where you are, you don’t know who you are.” While that is certainly true, “where you are” must also afford freedom, opportunity and a good life. In that regard, this paper lays out why Canopy may ultimately be one of the most hopeful innovations in our ongoing work of building vibrant, equitable and inclusive communities here in this place we call home.

Jeff Clarke
CEO, Philanthropy Northwest

Canopy was created to fill a void that exists between institutional investors and community-based investment solutions.

The world does not lack capital. In fact, we're awash in it. Anywhere you look, money is seeking return – from university endowments to high-net worth individuals to institutional investors.

But does that money always flow to the right places? No – it tends to flow towards scale and security rather than where it can make the greatest impact. Fund management, due diligence, deal discovery and analysis are all costs of investing that force global capital to find opportunities large enough to warrant the price tag. Big ventures are a magnet for big capital, and anything else is left behind, as the strategies beyond traditional investment management become too costly to make strategic sense.

Take for example the region Canopy calls home: The Pacific Northwest. We have a strong economy – big anchor institutions, large multinational players and tons of tech entrepreneurs and start-ups. But even among these proud economic pegs, we have a challenge. It is a given that when a Microsoft, Amazon or Nike need capital they don't have to search too hard – they have access to global capital markets. But what about a smaller venture?

Imagine a small forest-products company that needs to scale up to meet the demand for canoe and kayak paddles. Or a nascent education technology company that operates outside of our regional technology centers. Or a new investment fund focused on connecting small farms with operating capital through strategic public/private partnerships. All worthy investments with great growth opportunities and businesses closely tied to the people and terrain of the Northwest. What they lack is a mechanism for readily accessing necessary capital to grow and flourish in the region.

To answer the challenge of directing resources to these opportunities the big players may not find economically efficient, some investors are turning to the idea of "impact investing." That's investing with the intent to generate measurable community, social or environmental outcomes in addition to financial returns. Impact investing provides a framework through which investors can evaluate the types of opportunities described above. But there's another element to investing in smaller businesses or community initiatives. It is how capital can be used to strengthen a community, a town, a region, a place. Call it regional or "place-based" investing.

Place-based investing is why three foundations in Washington and Oregon launched Canopy in early 2015. Canopy was created to fill a void that exists between institutional investors and community-based investment solutions. At Canopy, we are developing an investment community where foundations, corporations, government, and individual investors collaborate to identify, prioritize, and allocate investment capital where we work and live. By coordinating efforts and leveraging capital from across the Pacific Northwest, we believe we can focus the region's many disconnected stakeholders on becoming part of a bigger community-driven investment collaborative. We are expanding the investing model so that stakeholders of a community or place are authentically engaged alongside investors

MEMBERS

THE LORA L. & MARTIN N. KELLEY FAMILY FOUNDATION TRUST

COLLABORATORS

in defining the terms of financial, social and environmental returns in order to seek to greater fairness and equitable outcomes across the board.

Taking its name from the ceiling of the great forests that still cover much of this area, Canopy is on a mission to enable meaningful, community-changing investments that address the specific needs of our region. At the same time, we are looking to build a scalable investment model that can be replicated nationwide. Our regional work is designed to meet the needs of any region or place that identifies itself as an economic ecosystem.

Creating and launching a mission-driven company focused on place-based investing presented genuine challenges. The biggest challenge came from the disparate needs, investment and operating restrictions, and expectations of Canopy's potential members and strategic partners. We have learned a lot during the process of teasing apart these issues, and believe our sometimes hard-earned knowledge can be of great service to people considering launching their own regionally focused enterprises.

This whitepaper covers how we reached some key decisions along the way. These include defining our mission and finding an organizational structure that makes sense for both Canopy and its members. This paper focuses heavily on issues addressed through the lens of Canopy's initial founding members – three private foundations. It dives into technical, legal, and investment details—all of which were considered to protect Canopy from tripping over lines drawn by the traditional paradigm of investing – the very framework we exist to disrupt. We also highlight some of the systemic issues Canopy was created to address within the regional investment ecosystem.

Who is behind Canopy?

Our initial founding members are Portland, Oregon-based Meyer Memorial Trust; Gig Harbor, Washington-based The Russell Family Foundation; and Seattle, Washington-based The Laird Norton Family Foundation. Since our official launch in April 2015, our membership has grown to include both the Lora L. and Martin N. Kelley Family Foundation Trust and The Seattle Foundation.

Meyer Memorial Trust makes grants and investments in the state of Oregon within four areas: education, affordable housing, the environment, and a vibrant nonprofit sector. The Russell Family Foundation also has a deep commitment to place, with programs focused on the Puget Sound region of Washington, particularly within Pierce County and south of the Puget Sound. Their activities focus primarily on community building, grassroots leadership, and environmental sustainability. Most recently, The Russell Family Foundation is leading an initiative centered specifically on building resilient communities in the Puyallup River Watershed in Washington. The Laird Norton Family Foundation supports arts in education, climate-change mitigation and adaptation, and watershed stewardship focused on three Pacific Northwest watersheds: the Hood Canal (WA), the Upper Deschutes (OR), and the Rogue (OR). Recent additions The Lora L. and Martin N. Kelley Family Foundation

New, high-quality investment opportunities, such as locally oriented venture capital funds, are hard to find and expensive to research, complicating the business case for investors, wealth managers and investment consultants considering regional investing.

Trust and The Seattle Foundation are both committed Pacific Northwest investors working to creating thriving communities in which they live and work.

Also critical to Canopy's early development was our incubation within Threshold Group, a Seattle-based wealth-management firm created by the Russell family upon the sale of Russell Investments to Northwestern Mutual in 1999. What started as the build out of Threshold's impact investing capabilities and the opportunity to lead Threshold's large foundation relationships ultimately provided much of the perspective that underpinned Canopy's genesis.

Understanding the challenge

While each foundation cares about slightly different issues and places, they have all faced similar investing challenges. They found that too often capital markets and investment products were geared towards global growth opportunities and overlooking promising ideas close to home. Most institutional capital narrowly seeks investment opportunities falling along the standard risk-reward continuum and, as a general rule, actively looks to maximize investment return on a risk-adjusted basis.

Don't get me wrong – our founding members were all seeking investments with strong financial returns for the 95 percent of the endowment they were not required to distribute annually. However, they were simultaneously trying to find new ways to put their investment capital to work in support of and in alignment with their grant-making initiatives. With their common interest in the Pacific Northwest, they became determined to break out of the mold and bring some of their assets back into the region to support community-driven investment solutions.

That seems like a simple goal: Finding investment opportunities close to home. But our founders quickly ran into significant hurdles. For one thing, each was going about hunting for local investment funds on its own and was at a different place in the process within their own organization. Our founders each had relationships with different investment consultants and wealth managers, further complicating efforts to collaborate on investing capital with the smaller, more niche-oriented investment. Researching local investment prospects requires large amounts of fresh research. New, high-quality investment opportunities, such as locally oriented venture capital funds, are hard to find and expensive to research, complicating the business case for investors, wealth managers and investment consultants considering regional investing. Adding to the challenge was the lack of visibility to nascent investment funds in the region and an underdeveloped network of financial intermediaries.

Related barriers to place-based investing are playing out in the relationships between investment fund managers, investment consultants and investors themselves. Funds without substantial track records are unable to raise institutional capital as they do not meet the standard selection criteria of investment consultants. This creates major hurdles for first-time funds and provides a significant barrier to unlocking capital in the region. New fund managers often lack support structures and mentors that are critical

CHALLENGING MARKET DYNAMICS TO OVERCOME

- **Lack of visibility to nascent investment funds**
- **Underdeveloped network of financial intermediaries**
- **Rigid selection criteria of investment consultants**
- **New fund managers often lack support structures and mentors**
- **Finite lifecycles of many funds**
- **Narrowly focused capital deployment strategies**
- **Governments often limited in their ability to interact with other investors**
- **Seed stage investors often act independently**

to success in investment strategy creation. Also, finite lifecycles of many funds that are intended to provide investors with confidence around timing on return of capital may ultimately limit a fund's ability to maximize both financial returns and community outcomes by forcing premature exits on portfolio companies. More patient capital is often required. Furthermore, thematic and narrowly focused geographic strategies are often unable to absorb large capital commitments from institutional investors due to their concentrated focus and the transaction costs associated with capital deployment. Clearly, a solution was needed to address these market dynamics.

Canopy's founders also understood some of the systemic issues faced by other regional investors as a result of their programmatic work but lacked the ability to address them strategically. Governments are often limited in their ability to interact with other investors, yet they often take a community driven approach that is aligned with many private and community foundations. Individual investors have perhaps the biggest challenge with a dearth of information at all points in the investment process including general education, investment sourcing, and due diligence. Investment collaboratives like Investors Circle and TONIIC each meet needs of their distinct membership groups, but none are dedicated to building the social infrastructure necessary to connect their interests and investment capital. Angel and seed stage investors often act independently or within closely knit groups of trusted colleagues, while some individual investors are actively looking to place investment capital but simply do not know where to look and have no way to evaluate the viability of investments they do surface.

Technology as a resource and scaling agent has been significantly underutilized in regional investing. This is not a surprise given the unique nature of each place, each community. Again, the economics of the investment industry and complexities around placing capital close to home make this challenging for any one organization to focus on as a core competency. We believe there is value in exploring technology as a platform to drive regional investing, and indeed some institutional investors are taking steps in this direction. The most highly regulated industries often provide the highest barriers to entry, and accompanying that, the highest profit margins to established players. Technology innovation can be used to disrupt such industries, with high rewards for those willing to take on deeply entrenched systems and practices. There appears to be an opportunity for a disruption of the regional investment industry along the lines of Zillow's disruption of the real estate industry, Expedia's impact on the travel industry, or, most recently, Glassdoor's democratization of the compensation industry. Finally, communities have few places to raise their hands and explore collaborative investment funding so many good ideas never see the light of day because there is no mechanism to test the thesis and investment viability of place-based solutions. There is great potential for Canopy to leverage technology in meeting this need.

SEVEN CORE BELIEFS

We framed Canopy in terms of seven core investment beliefs:

1. Communities are their own unique investment ecosystems.
2. Regions must leverage all types of capital to generate place-based investment solutions.
3. Investor silos are one of the primary roadblocks to regional investing.
4. Local leaders need a voice in developing investment solutions.
5. A thriving regional investing ecosystem will require new systems, tools and intermediaries to meet the unique nature of place-based investing.
6. Management for regional outcomes must be included in the design of investment solutions.
7. Now is the right time to test these ideas together and move towards a stronger regional economy.

- Keep Canopy as flexible

A Note on Philanthropy as Catalytic Capital

By design Canopy sets aside many of the approaches historically utilized in philanthropy yet acknowledges the critical role of philanthropic capital as a tool for fostering entrepreneurship and innovation to drive social change. Pioneers like Omyidar Network and recent newcomers like the Chan Zuckerberg Initiative realized that new models for innovative capital deployment may not always fit neatly within distinct nonprofit/for profit constructs and, like Canopy, designed frameworks that provided flexibility to direct capital to tackle our most region's most pressing problems. Our operating model is funded by a unique mix of direct equity investments, equity program-related investments (PRIs) and grant capital. We believe innovation is the key to blending investment and charitable capital within the social sector.

Three keys to building a new investment approach

The challenge was clear. Now we had to find the best model that would help Canopy redefine our approach to regional investing. At the table to help shape this thinking were Canopy Founders The Russell Family Foundation, Meyer Memorial Trust and The Laird Norton Family Foundation, along with other leading foundations, attorneys, accountants and thought leaders.

After a year of market research, we were able to frame Canopy in terms of seven core investment beliefs. See sidebar for details. Essentially, we came to see that each community is its own investment ecosystem that requires access to both debt and equity capital and a direct mechanism to empower communities to be part of the solution. Additionally, we needed to find new ways to unlock capital currently held in silos not accessible from one part of a region to the next.

To act on those core beliefs, we developed three strategic offerings. Taking an ecosystem approach to address problems by balancing both supply-side (investments) with the requirements of the demand side (investors) we decided to holistically target regional outcomes. Canopy would act as sort of general contractor and knowledge hub in the regional investment ecosystem.

Canopy PLACES™: PLACES is the ecosystem mapping arm of Canopy. In collaboration with the University of Oregon, University of Washington and other educational institutions, we are conducting strategic research on the capital landscape in the Pacific Northwest. We're analyzing points of connection and capital gaps and building an interactive online map to share this information. This will help us surface investment opportunities, identify unique collaborations among regional stakeholders and drive future strategic initiatives at Canopy.

Canopy CAPITAL™: CAPITAL is Canopy's investment arm. Through strategic partnerships with Threshold Group and a bench of investment consultants, Canopy provides members institutional-quality investment research on regionally-focused funds and other investment opportunities. Through this work Canopy, in partnership with the Global Impact Investment Network (GIIN) and other industry experts, is developing a program to train early stage fund managers and entrepreneurs on how to successfully structure impact investment funds, raise capital from institutional investors and deploy capital in a disciplined and effective manner. Canopy CAPITAL is also taking data surfaced through research from Canopy PLACES to populate an online regional database for our members.

Canopy CATALYST™: CATALYST is Canopy's capacity building and education arm. Similar to an investment fund incubator, CATALYST provides a space for communities to identify, research and testthe viability for investment fund creation around specific areas of interest and need. This education is taking the form of learning communities, where groups of investors and other regional stakeholders will tackle specific relevant problems and create opportunities for co-investment. The first Catalyst Cohort is focusing on how to deploy capital to enhance rural economic development in the Pacific Northwest. Subsequent cohorts will likely address issues related to investing in urban communities, how industry groups can create collaborative funding mechanisms, and how a particular geography might create a cohesive pathway for new companies to grow from crowd-funding to individual investors, and on to institutional investors. We are also working on educating investors and investment advisors on key elements of regional investing through partnerships with Mission Investors Exchange and Philanthropy Northwest.

Finding the right organizational structure

Defining Canopy's core goals and service offering was the first step. The second, equally important step to Canopy's success would be multi-sector involvement by stakeholders and members. One of the most important issues we had to address was the role of philanthropic capital in our model. For Canopy to succeed we need to leverage the leadership and investment capital of our founders but design our work in a way that provides value to other types of regional investors and is accessible to the innovators and leaders within our region.

Private foundations are key elements in our ecosystem as a primary source of seed capital to fund Canopy's initial research and activities in the Pacific Northwest. So how best to structure Canopy? We turned to leading legal and tax experts from Davis Wright Tremaine, Adler & Colvin and Clark Nuber to help us tease apart some of these issues. In a collaborative process, we quickly began to narrow down our options. We were careful to have legal counsel representing the organizations at the table work together to problem-solve.

Canopy needed an organizational structure that would allow us to pursue all of the three strategic offerings outlined above and also attract investors. As such, we looked into various alternatives: C-Corporations, S-Corporations, Limited Partnerships (LP), Limited Liability Companies (LLC), Benefit Corporations, Social Purpose Corporations, L3Cs, and 501(c)(3) charities and other tax-exempt entities, as well as various combinations of these alternatives.

It was important that our structure reflect the complexity of the work we are undertaking and also highlight systemic issues that limit cross-sector collaboration. We also wanted to address the many structural and legal issues built into philanthropy that complicate and often challenge the ability

WHATEVER STRUCTURE WE CHOSE HAD TO MEET MULTIPLE OBJECTIVES

as possible

- Balance Canopy's social purpose and investment objectives
- Optimize tax efficiency for potential members, recognizing that our founding members were 501(c)(3) organizations
- Allow membership/ownership by foundations, government, corporations and individuals
- Create a workable revenue model – based on membership, subscriptions or potentially fee-for-service at some point in the future.
- Enable Canopy to be simultaneously capitalized by equity investments, PRIs and grants

The impact market could reach $400 billion by 2020

of private foundations to direct capital – either grant or investment corpus – to companies such as Canopy that do not fit neatly into the current for-profit/nonprofit paradigm. The structure needed flexibility around the levels of commitment investors may make both in dollars and governance. We recognized that shared governance and the concept of collective control is a unique characteristic that a broad contingency of investors finds particularly attractive about Canopy. Finally, we had to build in limited liability for investors, which is a hallmark of most investments. Ultimately, this led Canopy to launching under a Limited Liability Company (LLC) structure. The following sections dive deeper into the considerations that factored into eliminating the many other structural options that were originally on the table.

Why not non-profit?

We considered whether Canopy should be formed as a charity under Internal Revenue Code Section 501(c)(3). Some of Canopy's activities were expected to be charitable in nature and at the time, all of our potential members were also tax-exempt organizations. We were thinking long term and, if Canopy were structured as a tax-exempt charity, members could not own an equity interest and the types of activities that it could pursue would be restricted. An LLC offered flexibility to pursue activities that are both charitable and non-charitable in nature. In addition, as an LLC, Canopy can receive equity investments from non-501(c)(3) members, which was a fundamental goal of Canopy. Finally, it was more expensive to create a new 501(c)(3). Legal fees could easily run many thousands of dollars and the tedious process of applying for tax-exempt status from the IRS could also delay the start-up of Canopy. To avoid this, we could have housed Canopy within an existing charitable organization, but again this would have limited Canopy's activities as well as precluded broad member control over Canopy's activities by placing ultimate decision-making authority with the board of the existing sponsoring organization.

Why not C-Corp or S-Corp?

It became quickly apparent that we did not want to incorporate as a C-Corporation, because we did not want members to be exposed to the high tax rates levied on corporations and the double tax regime imposed on C-Corporations and their investors. An S-Corporation avoids double taxation and is fundamentally a pass-through organization as discussed below. However, all of the income, regardless of its character (active or passive investment) is passed through to the tax-exempt owners as unrelated business income subject to tax at corporate or trust rates depending upon the nature of the tax-exempt owner. The tax-exempt members now have to file the Form 990-T if gross income is greater than $1,000. Both the C and S corporation provide the desired limited liability for members. However, the tax inefficiency disqualified both of these entity choices as viable alternatives for Canopy.

Why not LP?

Similar to the S-Corporation, other alternative flow-through structures, such as an LP or LLC, do not pay federal income tax at the entity level. Flow-through organizations are essentially conduits and have the ability to be taxed as partnerships, which is more efficient for its members; without getting too technical, these structures allow all activities conducted by Canopy as an LP or LLC to be treated as if conducted directly by its tax-exempt members. This allows each member to determine the treatment of income activities at the member level rather than at Canopy's level.

While both LLCs and LPs are more efficient from a tax perspective, they are quite different from a liability and governance perspective. LLC governance is generally designated in the LLC agreement and can be structured in any way that best suits the needs of the specific entity. Limited Partnerships, on the other hand, typically have a general partner and a set of limited partners, as is common among commingled investment funds. Limited partners hand off decision making to the general partner, typically the management team, and have very little involvement in the company's day-to-day activities and investment decisions. In exchange, the general partner bears personal liability. Because we wanted hands on governance and all members to benefit from limited liability, it became clear that an LLC structure would be preferable to an LP. Plus, an LLC structure was also clearly better for our purposes from a tax and flexibility standpoint.

Why not a hybrid?

We also looked at setting up as one of several different types of hybrid options. These included Benefit Corporations, Special Purpose Corporations, Low Profit Limited Liability Corporations (L3C), and a single member LLC under an existing public charity. All except the last one were discarded as being unsuitable ultimately for the reasons cited under the C-Corporation/S-Corporation section above. The L3C option was not chosen primarily because we could draft an LLC agreement that met our needs without adding unnecessary complexity of forming in a state that had an L3C statute or accepting the restrictions in such a statute (e.g., operating primarily for a charitable purpose). The possibility of creating a single-member LLC under the umbrella of an existing public charity was seriously considered. The benefit of this umbrella approach was that any member could make a grant or a charitable contribution to the LLC (which takes on the public charity status of its single member). An added benefit for private foundation members is no expenditure responsibility oversight would be required. However, again, the major drawback would remain that the public charity would have ultimate authority over Canopy's activities as the sole member of the LLC, leaving other participating organizations less control and buy-in. Canopy still has not ruled out the possibility of creating an affiliated 501(c)(3) organization going forward. But we wanted to keep it simple for now. The reason to consider a 501(c)(3) affiliate includes promoting participation by non-equity members, such as corporations and other taxpayers, who want to take a federal income tax deduction for any gifts to support Canopy's charitable activities.

Canopy LLC

The alternatives we studied all had pros and cons. We ultimately determined that an LLC structure was the most useful vehicle for multiple private foundations and other participants to pool their resources to pay for mission-related investment research and capacity building educational programs. An LLC is simple, flexible and transferrable. Each member owns a pro-rata share of Canopy and is deemed to engage directly in its proportional share of the LLC's activities from a tax standpoint. Since our three founding members are private foundations, the LLC structure also helped address specific legal issues related to private foundations such as self-dealing, unrelated business taxable income (UBTI) and excess business holdings.

Fundamental goals of Canopy are scalability, self-sustainability and transferability to other geographic regions outside the Pacific Northwest.

ADVANTAGES OF THE LLC STRUCTURE INCLUDE:

- **Flexibility of purpose helps Canopy achieve the goal of offering a public good.** Fundamental goals of Canopy are scalability, self-sustainability and ultimately transferability to other geographic regions outside the Pacific Northwest. Many of Canopy's activities, particularly those of Canopy PLACES and Canopy CATALYST, make this transition possible by building the field and providing strategic research for potential place-based investors. These public good activities are a major reason such a wide variety of stakeholders are interested in what we are doing, including private foundations. An LLC allows charities to participate in different ways. For instance, private foundations could make equity contributions or loans as PRIs, if the investments were structured to significantly further the foundation's charitable purpose, or could make investments as non-PRIs for a broader range of purposes. Private foundation investors that make PRIs in and potentially grants to Canopy may be able to count those PRIs or grants toward their private foundation annual distribution requirements due to Canopy's charitable purpose. Because Canopy's founding members are 501(c)(3) private foundations, we also included language that forbids Canopy from engaging in any activities thatwould be prohibited for a private foundation.

- **Allows Canopy to be shaped by members and strategic partners.** It was a top priority to have high levels of member and community participation in Canopy's mission and activities. In previous work we found that people in the communities often are the ones with the most creative solutions. By encouraging widespread involvement of members, creative thinking and powerful collaborations follow naturally. The LLC structure allows for this. An LLC avoided the need to affiliate with only one existing charity and allows for flexibility in governance. Canopy is governed by its members, who have collective control over the company. Since members are owners of Canopy, their interests are aligned with Canopy's activities and success. Our founding members, Meyer Memorial Trust, The Russell Family Foundation and The

Laird Norton Family Foundation, each hold a board seat, as will subsequent Founding level members, and Supporting level members are able collectively to choose one representative on our board. The board's primary responsibility is to ensure that Canopy's activities are aligned with its mission and any changes to the model are additive (i.e. Canopy cannot eventually turn into a hedge fund).

- **Addresses potential road bumps for members.** Because our three founding members are private foundations, we had to be cautious not to break any rules relating to private foundations and their tax-exempt status. For instance, a private foundation and its insiders (called dis qualified persons) together generally may own no more than 20 percent of the voting or ownership interests in a business enterprise. In part because of that, we structured Canopy as a cost-sharing arrangement between our members. For now. This model may change over time as more members join. If enough members join such that no single private foundation investor owns more than 20% of Canopy (in combination with the foundation's insiders), we might explore a less restricted revenue model. In addition, excess building holding rules, explained in more detail below, also do not apply to program-related investments. Therefore, as Canopy becomes operational, the LLC model allows the member board to monitor operations, consider revenue generation decisions and position Canopy to take advantage of any future revenue opportunities that do not violate private foundation requirements.

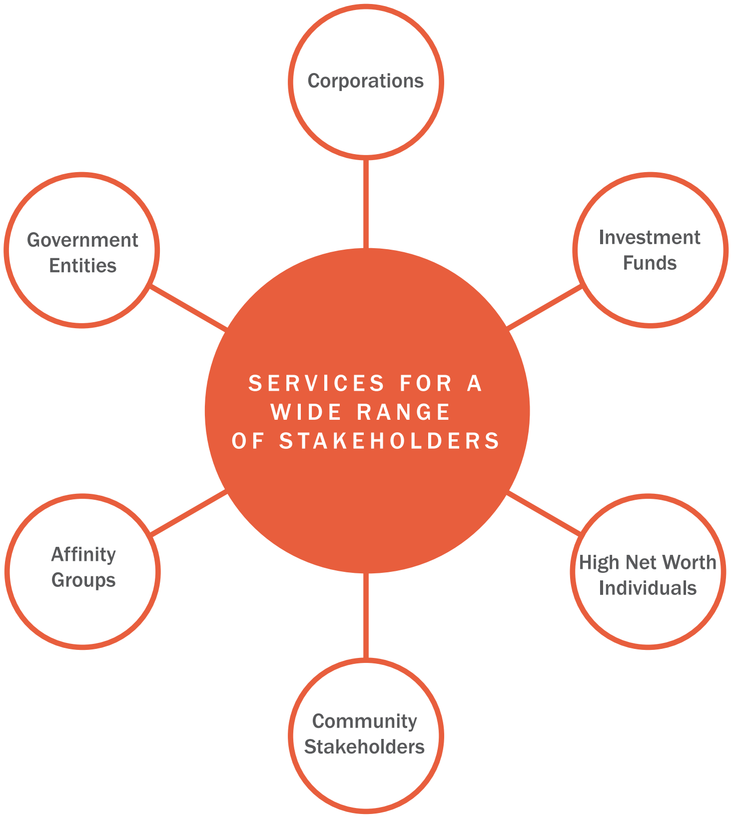
- **Allows special allocations of capital.** Because some of Canopy's services further a public good (think education and capacity building), Canopy's subscription agreement with certain funders, in addition to the general LLC agreement, clearly defines where these investor's PRI or grant dollars will be directed. Canopy's agreement with these funders will make it clear that PRI investments can only be used to significantly further a charitable or educational purpose through Canopy. The LLC structure provides Canopy this flexibility.

Canopy is governed by its members, who have collective control over the company.

For additional information on how Canopy's LLC structure overcomes legal hurdles, allowing private foundations to engage in this work, see the Appendix below.

Adaptation, collaboration and caution are vital to building a strong organization

We learned a lot over the course of a year as we shaped Canopy. Key to this process was getting collaborative thinkers together and working as a team to overcome structural limitations along the way. Our team learned that being willing to shift the model based on discussions led to more creativity and ultimately a better outcome. By exploring all conceivable models up front and evaluating strengths and weaknesses of each, we were able to work efficiently and find a solution that was not only the best fit for Canopy's initial investors but also flexible and able to anticipate needs five years down the road.



We took a classic "belt and suspenders" approach to Canopy. Because we were laying groundwork for a new hybrid for-profit/non-profit organization owned by a combination of organizational types, we needed to be cautious. We employed multiple precautions to ensure we would not trip any IRS rules. Beyond that, we made decisions based on what we thought would be appealing to institutional, corporate and private investors. This combination of being innovative and cautious became a huge learning point for our team.

We are actively working to develop services that involve government entities, corporations, investment funds, high net worth individuals, community stakeholders and current affinity groups. We contemplated this in Canopy's initial design. Now it will be interesting to see how our organizational model holds up to increased complexity. How will our private foundation members interact with corporations or governments? How will interests align and promote unique collaborations? How do we continue to push the paradigm of traditional, and even impact investing? These will be areas for deeper exploration for Canopy.

For additional information on Canopy, visit www.investcanopy.com or email info@investcanopy.com

APPENDIX

WE FRAMED CANOPY IN TERMS OF SEVEN CORE INVESTMENT BELIEFS:

1. Communities are their own unique investment ecosystems. Defined by a mix of place, people, values, and beliefs, every community presents unique challenges, needs and investment opportunities. Canopy exists to create connections between groups and individuals that might not otherwise collaborate who, together, hold the capital to power up local solutions.

2. Regions must leverage all types of capital to generate place-based investment solutions. A thriving regional investment ecosystem incorporates strategies that appeal to both equity and debt investors with differing risk tolerance, return expectations, and community priorities.

3. Investor silos are one of the primary roadblocks to regional investing. Cross-sector partnerships are necessary to unlock capital at a community level. No single investor – public or private – has the necessary mix of domain expertise, investment capacity and community knowledge to tackle the challenges communities face alone. Radical transparency is necessary to ensure investor collaboration.

4. Local leaders need a voice in developing investment solutions. Investment capital without leadership is not enough to enable true innovation. Local thought leaders and stakeholders provide critical insight and community capital that has historically been overlooked by the global capital markets. We need to be placing communities closer to the center of the impact investing paradigm. Shared governance among local leaders is integral to ensuring coordinated investments align with community generated solutions.

5. A thriving regional investing ecosystem will require new systems, tools and intermediaries to meet the unique nature of place-based investing. Communities lack the capacity to absorb investments at the scale that drives global capital markets. The same innovation and rigor used to build today's capital markets can be transformed to develop healthy regional capital markets.

6. Management for regional outcomes must be included in the design of investment solutions. Metrics serve to quantify social and environmental performance, and are often not sufficiently forward looking. Creating systems to intentionally manage for community outcomes will help foster alignment between investment returns and community priorities.

7. Now is the right time to test these ideas together and move towards a stronger regional economy. The current imbalance of supply and demand for regional investments presents real opportunity for new collaborations and community driven solutions. Overcoming legal hurdles for private foundations.

OVERCOMING LEGAL HURDLES FOR PRIVATE FOUNDATIONS

Excess Business Holdings

As mentioned above, excess business holding rules generally prohibit private foundations and their insiders from collectively holding greater than 20 percent interest in a business enterprise. Therefore, our advisors recommended that Canopy members take an ownership interest in Canopy in order to pool research costs and impact regional outcomes, rather than generate revenue through a fee-for-service model that would classify Canopy as a business enterprise. In this scenario, members receive the benefit of Canopy's research, education and training to impact regional outcomes as a "return on investment" rather than cash. In addition, we also made plans to reduce each private foundation member's percentage interest below 20 percent in the future in order to avoid even the possibility of an excess business holding and provide more operational revenue options.

Unrelated Business Taxable Income

Related to the concept of excess business holdings is unrelated business taxable income or UBTI. UBTI arises for tax-exempt organizations when they recognize net income from a trade or business which is regularly carried on and which is not substantially related to the organization's exempt purposes. Because Canopy does not intend to sell goods or perform services (remember, Canopy's activities are funded with member equity investments to cover costs, not fees to generate income), Canopy's activities should not constitute a trade or business. Furthermore, Canopy does not expect to generate income that could trigger UBTI for members. If in the future we transition to a fee for service model, we may have some amount of UBTI. How this is reported by members will depend upon their individual tax situations. That is part of the beauty of the LLC model. The Schedule K-1 received by each member will fully disclose the income by activity so each member can determine whether or not the income would be unrelated to their exempt purpose if it were conducted by their organization directly. If Canopy does generate income, each member whether taxable or tax-exempt will be able to manage reporting of income in consultation with its tax advisor.

Self-Dealing

One other issue we kept our eye on during the formation of Canopy was self-dealing. Self-dealing is not an uncommon concern for wealthy families that both own for-profit family offices and create charitable family foundations that share resources. In our case, we had to avoid certain transactions with foundation disqualified persons (insiders) entirely and ensure that any contracts Canopy did have with insiders of a foundation member met an exception to the self-dealing prohibitions. For instance, members of the Russell family, a key driver behind the formation of Canopy, are disqualified persons with regard to The Russell Family Foundation and own the Threshold Group (a strategic partner for investment research), which also makes Threshold a disqualified person with regard to The Russell Family Foundation. Thus, The Russell Family Foundation had to be very careful to avoid self-dealing arising from Threshold's interactions with Canopy.

With help from our attorneys, we were careful to build in provisions to the LLC agreement to address concerns related to our foundation members and their insiders, including the following:

1. a governance structure that limits the ability for any single member to control the board;
2. a requirement that the board adopt a conflict of interest policy pursuant to which any Canopy board member affiliated with a member foundation may not vote with respect to any matters involving an insider of that foundation;
3. a requirement that Canopy may not pay compensation to or reimburse expenses of a foundation insider, if the foundation member could not do so directly;
4. a requirement that Canopy may not promote the business or services of any private foundation member's insider; and,
5. a prohibition on any private foundation insider becoming a Canopy member. Because the founding members of Canopy are private foundations, Canopy takes self-dealing concerns very seriously, and the possibility of inadvertent self-dealing is something we will continue to monitor on an ongoing basis.

Private Benefit

An additional legal concern, as it relates to Canopy's founding members, was the question of private benefit. If Canopy includes members that are NOT 501(c)(3) organizations, we have to be sure that non-profit owners are not impermissibly subsidizing the for-profit owners. This risk can be partially mitigated by members sharing costs as well as information and donating any net income to charity.

While the legal concerns detailed above are considerable, our legal counsel included safeguards in Canopy's LLC operating agreement so Canopy and its private foundation members could avoid trouble with the IRS and operate with the flexibility it desired to achieve its charitable goals. The following are the highlights of these provisions:

	CANOPY LLC
Governance	Founding members each hold a board seat, other members elect a single collective board representative
Types of owners	Founding members must be 501(c)(3) organizations. There are no restrictions on Supporting members.
Excess business holdings	Activities funded by equity investments and grants., No fee-for-service of any kind; not a business enterprise
UBTI	Avoid net income through regular business expenses or donations to a designated charity. No net income anticipated at current time. Future income will be disclosed by activity, and character will depend upon member determination.
Private benefit	Avoid foundations subsidizing for-profits by sharing costs and not allocating profits to for-profit members. No disproportionate allocation of profits or benefits to non-exempt members.
Self-dealing	Disqualified persons of foundation members have been identified, and LLC agreement prohibits acts of self-dealing. Ongoing monitoring in place.
PRIs and Grant funding	LLC structure allows for investments and grants specifically designating a charitable purpose.